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TAGS: [FPET](#) [ENRG](#) [ECON](#) [PREL](#) [RS](#) [UP](#)
SUBJECT: UKRAINE: AMBASSADOR'S MEETING WITH NAFTOHAZ
CHAIRMAN OLEH DUBYNA

REF: 07 KYIV 2939

Classified By: Ambassador for reasons 1.4 (B) and (D)

1.(C) Summary. Ambassador met with Oleh Dubyna, the new chairman of Ukraine's state oil and gas company NaftoHaz, on February 22 to discuss the highly publicized gas negotiations with Gazprom. Dubyna admitted that he did not participate in the meeting between Prime Minister Tymoshenko and Gazprom's Chairman Alexei Miller, which took place a day earlier in Moscow, so he could not comment on the meeting's outcome. However, Dubyna reiterated his public stance advocating the immediate removal of gas intermediaries RosUkrEnergo (RUE) and UkrHazEnergo (UHE). He said he supported the plan, announced by Presidents Putin and Yushchenko on February 12, to replace RUE and UHE with two new joint ventures. Of all plans to deal with the intermediaries, the Presidents' plans were the best option to date, he said. Dubyna was confident the two new joint ventures would differ significantly from RUE and UHE because NaftoHaz would have a 50 percent stake in each, and because UHE would no longer be able to take profits that rightly belonged to NaftoHaz. He also acknowledged that current disagreements on the gas issue between Tymoshenko and Yushchenko were being exploited by the Russian side. End summary.

NaftoHaz Head Left out of Meeting

2.(C) Dubyna was unable to answer any specifics regarding PM Tymoshenko's reported 5-hour meeting with Gazprom Head Alexei Miller, which took place a day earlier, on February 21, in Moscow, because he had not been invited to participate. Dubyna, who was suffering from an injured back, joked that he stood in the antechamber of the meeting at Gazprom headquarters for 5 hours because he could not sit. He added that he was not privy to any agreements or documents from the meeting. Dubyna repeated that he supported the gas strategy of the President and the National Security and Defense Council (NSDC) and seemed to evade questions regarding the role of Tymoshenko in resolving the gas dispute.

RUE/UHE Arrangement and NaftoHaz Debts

3.(C) Dubyna reiterated that the current RUE/UHE arrangement was unacceptable to NaftoHaz. He calculated NaftoHaz's outstanding debt would increase by \$2 billion by the end of 2008 if RUE/UHE were not removed (Note: Gazprom claims that NaftoHaz owes \$1.5 billion for the months of Nov 2007-Jan

2008, and has again threatened to cut off supplies if NaftoHaz does not pay by March 14. End note.). He added that NaftoHaz had been incurring additional multibillion dollar debts since 2006, the year UHE took over the industrial gas distribution business from NaftoHaz, although he declined to give an exact figure. (Note: As of December 2007, analysts' reports indicated that NaftoHaz had about \$2.5 billion outstanding debt in the form of loans. See reftel. End Note.) Answering the Ambassador's question, Dubyna confirmed that the two Presidents had agreed on a new arrangement to replace RUE/UHE with new joint ventures. The NSDC had already approved the step, which Dubyna said he welcomed. He said he was convinced that if RUE and UHE were removed from gas dealings with Russia, NaftoHaz would regain the revenue needed to return the company to solvency and future profitability.

Gazprom Gets More Control in Ukraine via Joint Venture?

4.(C) The Ambassador asked Dubyna about details of the proposed joint ventures. Dubyna was evasive at first, claiming there would be only one joint venture, but when pressed admitted there would be two. According to Dubyna, the first joint venture would deliver gas to the border of Ukraine, fulfilling the role RUE currently plays. The other joint venture would distribute gas within Ukraine, fulfilling the role that UHE now has. Gazprom and NaftoHaz would each hold 50 percent of each new joint venture. Dubyna emphasized that NaftoHaz has no influence over UHE under the current arrangement. In the new joint venture, however, NaftoHaz would share 50 percent of the control and 50 percent of the profits with Gazprom. (Note: Nominally, Gazprom only has only a 25% stake in UkrHazEnerho (via RUE), so this new joint venture on the face of it increases Gazprom's influence in

the downstream Ukrainian gas market. End note.) When Ambassador asked who would head the new joint venture, Dubyna stated that issue had not yet been discussed.

5.(C) Serhiy Korsunskiy, the MFA's Director General for Economic Cooperation who attended the meeting, said afterwards that he felt the new joint venture would give Gazprom tremendous control over Ukraine's domestic gas system. Korsunskiy was not sure if Yushchenko or Dubyna really understood this alarming byproduct of the new joint venture arrangement, but was confident Tymoshenko did. Korsunskiy wagered that this issue might be the real stalling point for the negotiations, especially if Tymoshenko continued to push the issue in future talks with Moscow.

President and Prime Minister Still at Odds

6.(C) When asked why press reports continued to highlight differences between President Yushchenko and Prime Minister Tymoshenko in resolving the gas dispute, Dubyna repeatedly shook his head and admitted that the infighting had compromised Ukraine's negotiating position. Dubyna claimed that he had offered to sit down with both Yushchenko and Tymoshenko to create a plan that NaftoHaz could realistically fulfill, but he had not been successful to date. Dubyna felt neither Yushchenko nor Tymoshenko was willing to pursue what might be the most logical negotiating option for expelling the middlemen: pay the full Russian price of \$314/thousand cubic meters for gas, and then renegotiate transit charges. A clearly frustrated Dubyna closed the meeting by stating that he would gladly give up his position as NaftoHaz Chairman to anyone who could return from Moscow with a new gas arrangement that finally protected Ukraine's interests.

7.(C) Comment. One would expect the head of Ukraine's gas monopoly to be in the know on what has transpired between the political leadership of Ukraine, Putin and Gazprom, but the meeting demonstrated that he is being kept out of the discussions, and likely intentionally so. Dubyna is clearly in the President's camp: during the hour-long meeting with the Ambassador he strongly supported the President's views,

while barely mentioning Tymoshenko's name. His loyalty to the President, and his apparently deliberate exclusion from Tymoshenko's meeting with Gazprom's Miller might validate rumors that Tymoshenko is devising a negotiation plan different from the President's. Unfortunately for Ukraine, the increasingly apparent inability of Tymoshenko and Yushchenko to put aside their rivalry on the key issue of gas will benefit Gazprom and Russia. If Gazprom is able to exercise more control over the Ukrainian gas system through whatever new joint ventures emerge from the latest round of negotiations, we suspect the former intermediaries will most likely not be missed much by Moscow. End comment.

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